

*Building the Future for Canadians*

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# Budget 1997



**Working Together  
Towards a  
National Child  
Benefit System**

February 18, 1997



Canada



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*Building the Future for Canadians*

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## **Working Together Towards a National Child Benefit System**

**February 18, 1997**



Department of Finance  
Canada

Ministère des Finances  
Canada

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# Our Children, Our Future

Opportunity denied in childhood too often means chances lost as an adult. Children are our future, so there is no better place for Canadians to invest.

For decades, researchers have been documenting the effects of low family incomes on childhood development. Controversy persists on how to define and measure poverty. But there is no debate about the consequences for children. Children need to be properly supported so they can lead happy lives and arrive at school ready to learn.

Now that governments in Canada are making good progress in controlling their deficits, we are in a position to increase our investment to improve the prospects for poor children.

Right now, the combined effect of federal and provincial programs is to reduce the child benefits of parents who leave welfare to enter the workforce. Parents should not be put in the position of penalizing their children in order to take a job.

Over recent months, support has been growing for a National Child Benefit System – an innovative approach to reduce child poverty and help make work pay. Canadians all across the country want their governments to give our children a fighting chance for a better future. Working together, the federal, provincial and territorial governments can extend and simplify income support for low-income families with children and invest more in services for children.

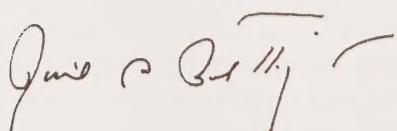
The basic idea is this. The Government of Canada is proposing to create the Canada Child Tax Benefit by combining the existing \$5.1 billion Child Tax Benefit and Working Income Supplement, the \$250 million committed in the 1996 budget, plus \$600 million announced in the 1997 budget. This assistance, totalling \$6 billion, will provide a stronger income platform for children in all low-income families across Canada. Provinces will then be able to redirect provincial resources towards improved income support and children's services for low-income working families. The overall income of families on social assistance will be protected.

A number of provinces are already moving in this direction and have allocated additional funds for this purpose. Other provinces have indicated their intention to take similar innovative steps to benefit children in low-income families. In addition to being a win for Canadian children, the National Child Benefit System is a step forward in Canadian federalism, with the federal, provincial and territorial governments seizing on a good idea, setting common objectives and working as partners to secure better lives for our children.

The National Child Benefit System will not eliminate child poverty. But it will improve the living standards of hundreds of thousands of Canadian children. And as governments' fiscal circumstances improve, we will be able to invest more.

Clearly, there is more to fighting poverty than providing income support. The Government of Canada and provincial-territorial governments agree that the broad framework of services and benefits for Canadian children needs to be strengthened over time. The National Child Benefit System is a much-needed structural reform in how governments respond to the needs of low-income families with children.

It has been my privilege to work closely with my provincial, territorial and federal colleagues in setting our policy on child poverty. Governments have listened to Canadians. Now we must see the concepts through to implementation over the coming months. There could be no better way to strengthen Canada than working together to build a better future for our children.



Pierre S. Pettigrew  
Minister of Human Resources Development

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# Children in Canada

Childhood is a critical stage in human development. The first few years of life shape each person's capacity to be a contributing member of society. Canadians know that it is important for each child to receive a good start to life. Canadians want their children to be healthy and happy, and they want them to share in the wealth of opportunities Canada offers.

Most Canadian children are doing well and are physically, emotionally and socially healthy. Unfortunately, some children are not doing as well. Many experience emotional, behavioural or learning problems that affect school performance and personal development. Others suffer from physical problems such as disease, disability and injury.

Such difficulties can and do affect children being raised in all family situations – in two-parent as well as single-parent families, in every neighbourhood and community throughout the country. But decades of research in Canada and abroad have shown that low family income is strongly linked with these problems. Compared to children from middle- and upper-income families, poor children run a greater risk of inadequate nutrition, mental and physical health problems, poor school achievement and difficulties with the law.

Living on a low income can exert a heavy toll not only on children and their parents but also on the economy and society. Although many low-income children grow up and out of poverty, its harmful effects in childhood can often linger long into their adult

years. The costs include increased expenditures for welfare, employment insurance, social services, health care, the courts and the penal system; lost tax revenues; wasted productivity; and missed opportunities for both individuals and society.

There can be no better investment than to help Canada's children. Greater investment in services and income support can work to everyone's advantage. However, to invest properly in children, we must address the problems created as a result of the existing income support programs.

# The Welfare Wall

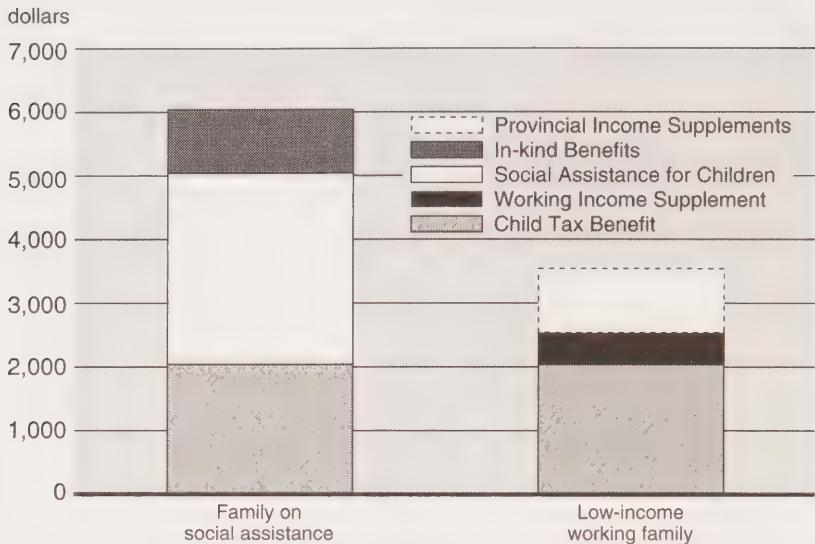
While the current array of federal, provincial and territorial programs provides essential support to families with children, it has also inadvertently formed a “welfare wall” that makes it difficult for parents to move from welfare to work.

Parents who move from social assistance into the workforce face a series of obstacles. They may be financially worse off in the workforce than remaining on social assistance in a variety of ways. For example, they may:

- lose thousands of dollars in social assistance benefits on behalf of their children;
- forfeit assistance for special needs, supplementary health and dental care, and prescription drugs;
- incur work-related expenses such as clothing and transportation;
- need to find affordable child care; and
- be required to pay income taxes, Canada Pension Plan/Quebec Pension Plan contributions and employment insurance premiums.

The chart on the next page shows how child benefits can decline when a parent of two children leaves social assistance to take a job.

*Welfare versus working family with two children*



Note: Levels of provincial benefits vary among provinces; representative levels are shown.

The present system creates significant financial disincentives to leave social assistance. It puts some parents in the quandary of leaving their children worse off if they take a job. What we need to do is provide better benefits for children in low-income working families.

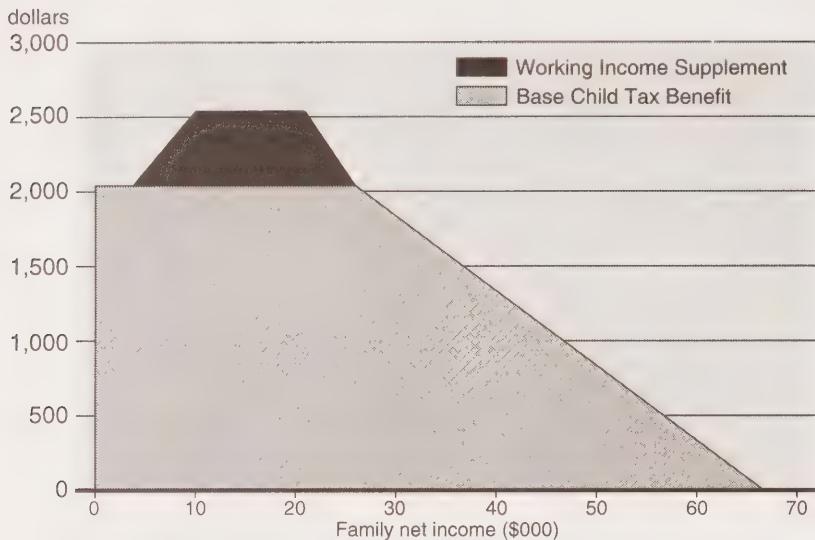
# What Governments Provide Now

The federal, provincial and territorial governments provide significant income support and child services that help families with the costs of providing for their children and recognize society's interest in supporting parents who incur financial obligations by raising children.

## **Federal child benefits**

The existing Child Tax Benefit provides monthly tax-free payments to 85 per cent of all Canadian families with children. Payments total over \$5.1 billion annually. Families with net income under \$25,921 receive the maximum Child Tax Benefit as indicated in Table 1. Benefits are reduced once net family income exceeds \$25,921 and reach zero at an income of about \$66,700 for one- or two-child families. Payments are based on a family's reported income from the previous taxation year, and monthly amounts are revised in July of each year.

*Existing Child Tax Benefit and Working Income Supplement*  
 Family with two children age seven or over



**Table 1**  
*The existing Child Tax Benefit*

	<b>Maximum benefits</b>
	(dollars per child per year)
Base Child Tax Benefit	1,020
Supplements:	
– third and each additional child	75
– children under seven <sup>1</sup>	213
Working Income Supplement (\$ per family)	500

<sup>1</sup> Where no child care expenses are claimed.

The Child Tax Benefit also includes a Working Income Supplement which provides benefits up to \$500 per year *per family* at a cost of \$250 million annually. The supplement helps offset some additional costs that lower-income families with children incur when working.

However, the Working Income Supplement is not sufficient on its own to overcome the “welfare wall”. Since it is based on the previous year’s earnings, the result is delays of between 6 and 18 months before an increase in earnings translates into higher benefits. A family moving off welfare does not receive the Working Income Supplement during the difficult early months in the workforce when social assistance benefits have been lost. Provincial and territorial governments are better placed to provide more responsive income supplements that are tailored to regional conditions.

The current Working Income Supplement also does not take into account the extra costs incurred by larger families since the benefit is the same no matter how many children are in a family.

## **Provincial child benefits**

Provinces and territories operate social assistance programs that provide approximately \$2 billion in income benefits for children. The benefits are in the range of \$1,200 to \$1,800 per child per year to cover basic needs (excluding accommodation-related benefits). Unlike benefit levels under the Child Tax Benefit which are generally determined once each year, welfare payments can be adjusted on a monthly basis, depending on family income and need. Benefits are reduced to zero once annual family income is in the \$15,000 to \$20,000 range. In addition to cash benefits, welfare programs provide allowances for special needs and in-kind benefits (such as supplementary health and dental care and prescription drugs) as well as housing subsidies. To qualify for social assistance benefits, families must undergo a needs test that takes into account their incomes, assets and budgetary needs.

Quebec, Manitoba, Saskatchewan and British Columbia operate additional income programs for children. Unlike social assistance but like the federal Child Tax Benefit, eligibility for these provincial programs is determined solely on the basis of family income. Moreover, several provinces have announced innovative child benefit programs that reduce the gap between what welfare and low-income working families receive.

## **Serving Canadians better**

Many low-income families receive both federal child benefits and provincial-territorial social assistance. The challenge for governments is to make these programs work better together as a system to ensure adequate income support and services for children in low-income working families.

The Government of Canada is best positioned to run large-scale programs delivered through the tax system. And federal benefits are always portable from province to province. On the other hand, the provinces and territories are better placed to run programs that include regional variations and respond quickly to changes in the needs and circumstances of individual families.

# Towards a National Child Benefit System

The federal, provincial and territorial governments have made significant progress towards a stronger and more co-ordinated approach to child benefits – a National Child Benefit System. They have agreed on three objectives:

- to help prevent and reduce the depth of child poverty;
- to promote attachment to the workforce – resulting in fewer families having to rely on social assistance – by ensuring that families will always be better off as a result of finding work; and
- to reduce overlap and duplication through closer harmonization of program objectives and benefits and through simplified administration.

The federal government, provinces and territories are also working on a series of operating principles to guide the development and implementation of the National Child Benefit System.

As a result of these considerations, provinces, territories and the federal government favour a joint approach that builds a stronger federal foundation for all low-income families with children, accompanied by provincial-territorial investments in complementary programs targeted at improving work incentives and services for low-income families with children. This approach should ensure a uniform basic level of income support for children across the country while providing for provincial-territorial flexibility and innovation.

On January 23, 1997, Quebec announced an Integrated Child Allowance which has objectives consistent with those above.

## Federal commitment

In the 1997 budget, the Government of Canada announced its intention to devote \$6 billion to an expanded and redesigned National Child Benefit System. Details will be developed with provincial and territorial governments for implementation in July 1998, or earlier if possible. This will combine the more than \$5.1 billion currently provided through the Child Tax Benefit and Working Income Supplement, \$250 million committed to increase child benefits in the 1996 budget, and \$600 million announced in the 1997 budget. This is a substantial down payment on an important national project.

As an interim step towards the new benefit system, the 1997 budget proposes to enrich and restructure the Working Income Supplement by providing benefits for each child instead of a single benefit per family. The maximum benefit will be increased from \$500 per family to \$605 for the first child, \$405 for the second child and \$330 for each additional child. As at present, these benefits will be phased in based on family earned income over \$3,750 and reduced based on family net income over \$20,921. Including the Child Tax Benefit, low-income working families with one child would see the total maximum annual benefit rise to \$1,625.

**Table 2**  
*Proposed 1997 enrichment and restructuring  
 of the Working Income Supplement*

Current maximum benefit	Proposed maximum benefit
(dollars per family)	(dollars per child)
500	605 – first
	405 – second
	330 – each additional

This interim change will enrich the Working Income Supplement by \$195 million in July 1997 – \$70 million more than the \$125 million increase proposed for July 1997 in the 1996 budget. This change will benefit 720,000 families with children.

## The road to a National Child Benefit System

Government support to children and families has a long history. Government of Canada support dates back to 1918 when the child tax exemption was introduced. Universal family allowances were introduced in 1945. Over the years, a variety of other, more targeted, measures were provided in the tax system leading to the 1978 introduction of the refundable child tax credit and the 1993 consolidation of existing federal benefits into the Child Tax Benefit. For many decades, provincial and territorial governments have operated social assistance programs to provide income support and services to those families in need. Some provinces also provide income supplements or tax credits to low-income families with children.

The 1994 report by the Government of Canada, *Improving Social Security in Canada*, called for action to address child poverty. Its supplementary paper, *Income Security for Children*, discussed a number of options for child benefits reform, including an integrated federal-provincial approach.

The *Report to Premiers of the Ministerial Council on Social Policy Reform and Renewal* (March 1996) proposed, “the possible consolidation of income support for children into a single national program, jointly managed by both orders of government, with options for either federal or provincial/territorial delivery of benefits.”

At the June 1996 first ministers’ conference, child poverty was placed on the national agenda under the leadership of the Prime Minister and the premiers. At the annual premiers’ conference in August 1996, premiers, with the exception of the Premier of Quebec, asked their ministers to work on an integrated child benefit with the federal government.

Building on earlier work by social services ministers and the newly created federal-provincial-territorial Ministerial Council on Social Policy Renewal, the Newfoundland Minister of Social Services announced January 29, 1997 on behalf of provinces and territories that “... there is consensus from all provinces to proceed with development options for a National Child Benefit in partnership with the federal government.” Quebec has remained an observer to the federal-provincial process but is moving in the same direction in its own reforms.

## Moving with the provinces and territories to implementation

Discussions with provinces and territories have progressed to a point where there is broad agreement on an approach for developing a National Child Benefit System. Under this approach, federal resources would be used to create an enriched and simplified federal child benefit as a platform for provincial-territorial supplementary benefits to low-income working families. The Government of Canada proposes to apply the \$6 billion in resources outlined above to create a Canada Child Tax Benefit that would combine the existing Child Tax Benefit and the enriched and restructured Working Income Supplement.

The Canada Child Tax Benefit would provide a maximum annual amount of \$1,625 for the first child and \$1,425 for each additional child; these maximums would apply to all families with family net income up to \$20,921. (The supplement of \$213 per child for children under seven would be retained for families not claiming child care expenses.) Some 1.4 million families with 2.5 million children would receive higher federal benefits.

Families with incomes above \$25,921 would receive the same benefits as they do today under the Child Tax Benefit. These benefits will continue to provide an important recognition in the tax system of the costs of raising children borne by modest- and middle-income families.

**Table 3**  
*Comparison of current maximum federal benefits with proposed 1998 benefits*

	Current		Proposed
	Base Child Tax Benefit <sup>1</sup>	With Working Income Supplement	Canada Child Tax Benefit <sup>1</sup>
(dollars)			
1 child	1,020	1,520	1,625
2 children	2,040	2,540	3,050
3 children	3,135	3,635	4,475
4 children	4,230	4,730	5,900

<sup>1</sup> Plus \$213 for each child under seven when no child care expenses claimed.

Changes to federal and provincial-territorial child benefits will reduce current benefit disparities by increasing assistance to low-income working families while ensuring that the overall level of assistance to families on social assistance is not reduced. To accomplish this, an enriched federal benefit along the lines set out above will require provinces and territories to make offsetting reinvestments of provincial funds to assist children in low-income working families. In addition, provinces and territories may be in a position to increase their own funding for such programs. Several provinces and territories have already introduced or announced new child benefits.

Possible provincial-territorial reinvestments include: in-kind benefits (e.g., pharmacare or dental care) to low-income families not receiving social assistance; child care services; a child credit for low-income families (such as the B.C. Family Bonus or the proposed Quebec Integrated Child Allowance); an earned income credit (such as the Alberta Family Employment Tax Credit); or some combination of the above (such as Saskatchewan and New Brunswick have proposed).

Over the coming months, the federal, provincial and territorial governments will finalize plans for a National Child Benefit System, including a jointly developed “reinvestment framework” to guide the reallocation of provincial and territorial funds made available by the increased federal child benefit to other programs targeted at improving work incentives and supporting children in low-income families. This will be an important tool to provide accountability to the public on how monies are being reinvested in children.



# 5

## Conclusion and Next Steps

Federal, provincial and territorial governments share the objectives of preventing and reducing child poverty, improving work incentives and simplifying administration. The basic approach to a National Child Benefit System is that the federal government will strengthen the federal benefit and the provincial and territorial governments will, at the same time, improve services and benefits for low-income families with children, particularly the working poor.

For its part, the Government of Canada has announced a commitment to increase federal child benefits by \$850 million annually compared with the system now in place. As an interim step, starting in July 1997, the federal government proposes to spend \$195 million to enrich and restructure the Working Income Supplement and convert it from a "per family" to a "per child" benefit.

In the coming months, the Minister of Human Resources Development will work with his provincial-territorial colleagues and the Minister of Finance to:

- finalize the design of the Canada Child Tax Benefit, the federal component of the National Child Benefit System;
- develop a mutually agreed-upon framework for provincial-territorial reinvestment in programs that improve work incentives and better support children in low-income families;

- confirm the specific complementary provincial investments (recognizing that several provinces have already taken important steps in this area);
- work out arrangements to simplify delivery of benefits; and
- define an evaluation framework for the National Child Benefit System, to facilitate accountability of both levels of government to the public, and to learn from experience and innovation.

Canadians will be invited to express their views on the planned changes. The federal government will also work with First Nations, provinces and territories to ensure that First Nations' children, on reserve, benefit like other Canadian children from these initiatives.

The Government of Canada is firmly committed to providing additional assistance to children in low-income families. The government will proceed immediately with legislation to enrich and restructure the Working Income Supplement for July 1997. Legislation will also be proposed this fall to implement the Canada Child Tax Benefit for July 1998. This is a major step forward in investing in children and in renewing our country.







